Washington Gas Energy Services
A Washington Gas Affiliated Company

13865 Sunrise Valley Drive, Suite 200
Herndon, Virginia 20171-3401
Phone: (703) 793-7500
Fax: (703) 793-7301

May 7, 2003

Via Electronic Delivery Only

Susan D. Larsen, Deputy Director
Division of Public Utility Accounting
State Corporation Commission
1300 East Main Street
Richmond, VA 23218-1197

Re: *Commonwealth of Virginia, ex rel. State Corporation Commission In the Matter of Developing Consensus Recommendations on Stranded Costs Case No. PUE-2003-00062*

Dear Ms. Larsen:

Here are the comments of Washington Gas Energy Services (WES) based on the four questions raised at the April 29, 2003 meeting of the Stranded Costs Work Group. We thank the Commission for moderating the meetings and look forward to our continued involvement in the process of an orderly development of a fully competitive electricity market in Virginia

> **Q1) LTTF requested action #9** reads: "Include in its reports to the LTTF any recommendations for legislative or administrative action that the Commission, the work group, or both, determine to be appropriate in order to address any overrecovery or underrecovery of just and reasonable net stranded costs." Please discuss whether the definitions and/or methodologies discussed by the work group might require any action as contemplated by Requested Action #9. Discuss what action may be necessary, the timing of that action, and why it is necessary.

WGES Answer: 1) LTTF Requested Action #9

The definitions and/or methodologies discussed by the Stranded Costs Work Group would not require any action by the LTTF as contemplated by Requested Action #9 in Phase I. However, in Phase II, the Commission could recommend a true-up process to the LTTF for any overrecovery or underrecovery of just and reasonable net stranded costs to be conducted at least annually. It should be made clear that the cessation of stranded costs recovery is 2007.

Another clarifying point worth making is that stranded costs recovery in Virginia commenced on the same day that capped rates were effective for each utility company. The utility-specific effective date for capped rate recovery is superior to either the effective date for

Choice in each service territory or when the Restructuring Act was enacted because stranded costs are deemed to be recovered in capped rates or wires charges. Therefore, the recovery date is the same with the derivation of revenues from capped rates and wires charges. It is not unreasonable to expect that each utility considered the calculus of stranded costs and the recovery mechanism prior to agreeing to the restructuring plan. We urge Staff not to recommend the separation of stranded costs recovery date from the initiation of capped rates.

Q2) Comments Regarding the Stranded Costs Proposal Put Forth by Ed Petrini.

Answer: 2) Mr. Petrini's proposal offers a direct approach to the calculation of stranded costs. It is not unlike the Asset Valuation Model that would meet the request of the LTTF. Therefore, WGES finds the suggestion acceptable.

Q3) Comments on the Staff Proposal Discussed at the 4/29/2003 Meeting.

Answer: 3) Although Staff's proposal was presented as complimentary to the Asset Valuation Model, WGES could neither support a method that fails to compute stranded costs nor a new recovery mechanism outside capped rates and wires charges. It would also not be appropriate to assume that actual stranded costs would occur after the expiration of any recovery mechanism as the accounting approach would entail. The public interest and that of the orderly development of competition in the Virginia electricity market would be well served if potential and actual stranded costs considerations are concluded within the transition period without further meddling with "cost-based unbundled generation rates (at a fair return)" as the model also contemplates. The latter would seem an unacceptable cost-of-service scenario to deal with stranded costs. Based on the aforementioned, WGES is not in favor of the accounting perspective presented by Staff on April 29, 2003.

Q4) Comments on the Clarifications of Dominion's Proposal.

Answer: 4) WGES is not persuaded that Dominion's approach properly deals with over/under recovery of stranded costs through revenues from wires charges only. Further, the methodology proffered would not lead to the calculation of stranded costs for each utility company as intended by the LTTF, further refinements and clarifications included. Therefore, we remain opposed to the Dominion's proposal.

Respectfully submitted,

Ransome Owan

Ransome E. Owan, Ph.D.
Director, Regulatory and External Affairs

Washington Gas Energy Services, Inc.